The Role of the Hungarian Private Sector in the Development Assistance

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Content

Executive Summary

1. This policy paper intends to provide recommendations for the Hungarian policy-makers about the involvement of private sector actors in the field of international development. The suggested recommendations come from the findings of a research project examining the role of the Hungarian private sector in international development assistance.
2. The explicit admittance of private sector actors within international development projects is a relatively recent phenomenon. During the last decade, various political and social forces have been promoting the role and responsibility of the private sector in helping achieve development goals. However, the research did not find many examples of Hungarian private companies combining strong financial, technological and human capacities with a substantial commitment to corporate social responsibility.[1]
3. There are significant bilateral trade relations between Hungarian private companies and the major so called ‘partner countries’ in the Western Balkan, Eastern Europe, Asia and Africa. With the noticeable exception of several Asian countries, Hungary has a significant surplus of exports within these trade relations. However, although the statistical data suggests a substantial level of investment activity in the Western Balkan, this is in fact rather limited with a significant part of the “Hungarian” investment being a transit type of foreign direct investment of typically German owned multinational companies.
4. The international development potential of private companies is hampered by liquidity problems and the credit crunch within the Hungarian banking sector. There are specialized state institutions (first and foremost the EXIMBANK and the MEHIB) which provide valuable financial constructions for potential participants, the most important of which being tied aid credits. A profile of projects within recent international development activities indicate that the private sector could contribute significantly in the fields of social investment and manufacturing, especially related to agricultural and food industry technological improvement.
5. Small and medium-size Hungarian companies are strongly interested in international development projects. However, they lack the capacity for this in practically every respect. Whilst several SMEs are active in international markets, most are not providing significant technological value-added. They are typically too small to finance the investment needs of larger-scale projects, and the cluster-development, which has been offered as a possible solution to overcome size problems, is weak. Moreover, the technological and financial capacity problems are frequently aggravated by human resource problems.
6. Business associations and other intermediary organizations could play an increased role in filling the gap between the strong expressions of interest and the rather weak financial

[1] This research used a combined methodology of desk-research, survey, interviews and focus group discussions.

and human capability of the Hungarian private sector. Though inter-organisational cooperation is traditionally not very smooth among Hungarian economic actors, we can observe a few promising trends and examples; notable among them being corporate cluster development in the water industry sector.

7. In these circumstances the critical role of tied aid in Hungarian international development policy is unsurprising. Although major international actors and many civic organizations involved in aid networks are fundamentally opposed, tied aid has a relatively strong domestic legitimacy in Hungary; partly because of frustrating experiences in untied aid project tenders.

8. Nevertheless, because of the continuing and foreseeable opposition to this form of support, we recommend that Hungarian government actors gradually reduce the role of tied aid. This may gain greater legitimacy if private actors are more competitive in untied aid tenders as well which would require strong additional efforts to significantly improve companies' capability to participate in international development projects. In this respect

    a. The technical capacity problems can be partly solved by cluster development drawing on the positive experience of the water industry cluster.

    b. Concerning the financial capacity issue, the increasing role of the international-trade-supportive financial institutions such as EXIMBANK and MEHIB is favourable, but improvement in the general business climate is necessary as well.

    c. Human capacity problems of interested private sector actors can be partly solved with a more active cooperation between the NGDO sector and the private sector; in fact, on the longer run relations can be developed that are mutually supportive; in a post-crisis era, the private sector can help support the NGDOs financially, while the NGDOs may contribute with their human resources to increased private sector participation.

    d. Improving cooperation potential of Hungarian private actors is a basic prerequisite for each of these policy measures. Consequently, the role of intermediary organisations, such as the various chambers and sectoral business associations, has especial importance.

    e. Regular and transparent information exchange both personally and via interactive portals is a basic requirement.

    f. Finally the improvement of cooperation and participation requires a comprehensive public, transparent and up-to-date data base of opportunities to participate in international development work.

Introduction

This policy paper provides recommendations for Hungarian policy-makers about the *involvement of private sector actors in the field of international development*. The suggested recommendations come from the findings of a research into the current role of the Hungarian private sector. The analysis is one part of a wider research agenda that looks into the role of governmental actors and civil society organisations in international development.[2] In addition, the same research is carried out in eight other new European Union member states that joined since 2004.[3]

The explicit admittance of private sector actors in international development projects is a new phenomenon. The classical approach of development aid considers private sector participation in international development activities as a refined and hypocritical form of promoting particular business interests. Leading scholars of international development aid are critical about the aids' commercial purposes (Lancaster 2007). While nongovernmental organisations (NGOs) have long been considered legitimate and supportive actors of international, the inclusion of for-profit actors is still considered a sensitive and problematic area, indeed for some, the implicit involvement of business actors is one of the main causes of aid ineffectiveness. The issue of tied aid, in other words, assistance that had to be spent by purchasing goods or services from the donor country, has become an especially suspect form of aid, even if donor governments in the past 'regarded it as a means of maintaining domestic support for aid from important commercial interests' (Lancaster 2007:55).[4]

However, during the last decade „political and social agendas have increasingly been promoting *the role and responsibility of the private sector in helping to achieve development goals*" (United Nations Global Compact 2010, Hoxtell et. al. 2010:9). The idea of stronger private sector inclusion is supported by various arguments: the need for additional financial resources, the potential for technological innovation as well as the shared responsibility for the social and ecological effects of private economic activities. In this respect, the ideal type of private sector actors involvement draws on several propositions (1) private companies are able to achieve huge profitability thus they possess additional financial resources for investing in global development issues, (2) they have the technological capacities as well as (3) the human resources to promote innovation also in countries with less favourable business environments. Moreover, this vision about private companies implicitly assumes that (4) private companies are aware of corporate social responsibility (CSR) issues and are willing to act in a globally responsible way in poorer developing countries.

[2] For more details about these sectors see the research paper of Leiszen (2013) and the policy paper of Selmeczi (2013) respectively.

[3] A comparative synthesis report is planned to be published in the Summer months of 2013. For more details about the whole research agenda see „Official Development Assistance (ODA) in the New Member States: Trade Regimes, the Private Sector and the Civil Society as Development Actors". Available at the website of the Central European University, Center for Policy Studies (CEU CPS): http://cps.ceu.hu/research/official-development-assistance

[4] As a result, since 2001 there is an agreement to partially untie aid, at least to the least developed countries.

The idea that there are private companies with strong financial, technological and human capacities and a substantial commitment to CSR, could be at best partially valid for Hungary. The domestic economy has been struggling on the verge of recession since the last quarter of 2006; unlike other EU new member states that experienced economic decline only for a limited period in 2008-2009.[5] Consequently, it is more realistic to assume that as a result of an enduring crisis, the majority of Hungarian private companies lack profitability and they have a rather limited financial, technological and human potential to significantly participate in international development projects. Instead of strong global economic players, the *Hungarian private companies are fragile actors that can potentially play a valuable development role only in a small number of countries*; such as states on the EU's Southeastern and Eastern borders such as Serbia and Ukraine or with those countries which Hungary has particular historical ties such as Vietnam.

Methodology

The empirical research was based on the following steps[6]: first, we selected 10 countries from the OECD DAC list of ODA Recipients effective for reporting on 2011 flows. Then we identified for-profit companies that were active in these countries and conducted a survey with them about their activity in the specified countries as well as their attitudes towards international development. We interviewed representatives of line ministries and governmental agencies dealing with development cooperation, and we had a focus group discussion on the topic with private company managers, representatives of business associations, ministries and government agencies. Finally, we discussed our findings with our 'task force' group members (representing all of the major stakeholders) and included their feedback in the final version.

Country Selection

Hungary has strong bilateral trade relations with the relatively more developed upper-middle-income countries on the DAC list. However, our research sought to explore private sector activity and potential in lower income countries as well. As a result, the bilateral trade volume criterion was supplemented with additional criteria: *foreign and economic policy preferences, ODA allocation levels, geographical position* (situated in the Western Balkan or in 'Eastern Partnership' area) and *historical development ties.*[7] Nevertheless, for our analysis *a valuable trade volume was a necessary condition*, therefore we have only 5 states (Egypt, Kenya, Nigeria, Ukraine and Vietnam) that are non-upper-middle-income countries, while 6 states (Bosnia and

[5] In order to compare yearly economic growth rates within the EU, see the Eurostat data about real GDP growth rates: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115

[6] The research methodology guidelines were defined by the EuropeAid program representatives of the European Commission (the funders of the research).

[7] Although Hungary is considered to be a 'new' donor country, it has a relevant historical experience as a donor from the late state socialist period. In 1980, the estimated ratio of development assistance expenditures achieved 0.7% of the Hungarian national income albeit with a different methodology for national income calculation and fundamentally ideological motivations for aid allocation (HUN-IDA 2004:10). Even so, certain countries such as Ethiopia, Laos, Mongolia, and Vietnam continue to be considered as historical development partners (HUN-IDA 2004:11, Szent-Iványi 2009:193).

Herzegovina, China, Kazakhstan, Macedonia, Montenegro, Serbia) which are upper-middle-income countries.[8]

The role of the Hungarian private sector in the selected countries

Exports have been a driving force in the Hungarian economy since EU accession. Between 2003 and 2011 the external trade with *all countries* increased by 90% in euro terms (measured at current prices), and even between the crisis period of 2008 and 2011, it increased by 4%. Regarding services, we only have comparable data since 2006: in this period, foreign trade of services increased by 45% (and in the latter period by 13%). In general, *bilateral trade of goods with recipient countries expanded much more than the average*: the trade value in euro terms in 2011 was almost 4 times larger than in 2003, though since 2008 the increase was only 6% (only slightly above the average). Concerning bilateral trade relations in services, the tendencies are less promising: they increased significantly below the average since 2006 (and the same is true in the crisis period).

The dynamics of worldwide Hungarian *exports of goods* between 2003 and 2011 was even slightly higher than exports and imports together. Moreover, the growth of exports to the selected recipient countries was 3.8 times higher than the average. However, this exceptional bilateral trade dynamics applies only for 8 countries: China, Serbia, Montenegro, Ukraine, Kazakhstan, Egypt, Kenya and Nigeria, while it increased below the average to Bosnia-Herzegovina and Vietnam (it was slightly above the average in the Macedonian relation). The moderate dynamics of exports to Vietnam is especially conspicuous if we consider that total Vietnamese imports increased by 242% in euro terms between 2003 and 2011.[9] While this might indicate a problem of cost-competitiveness of Hungarian exports, the low dynamics of the trade with Bosnia and Herzegovina is more a consequence of weak Bosnian demand. In this respect, during the 2008-2011 crisis period, the *demand for imports* decreased especially in Bosnia-Herzegovina, Montenegro and Serbia. It stagnated in Macedonia and Ukraine, increased slightly in Kazakhstan, Egypt, Kenya and Nigeria, while it expanded strongly in China and Vietnam.

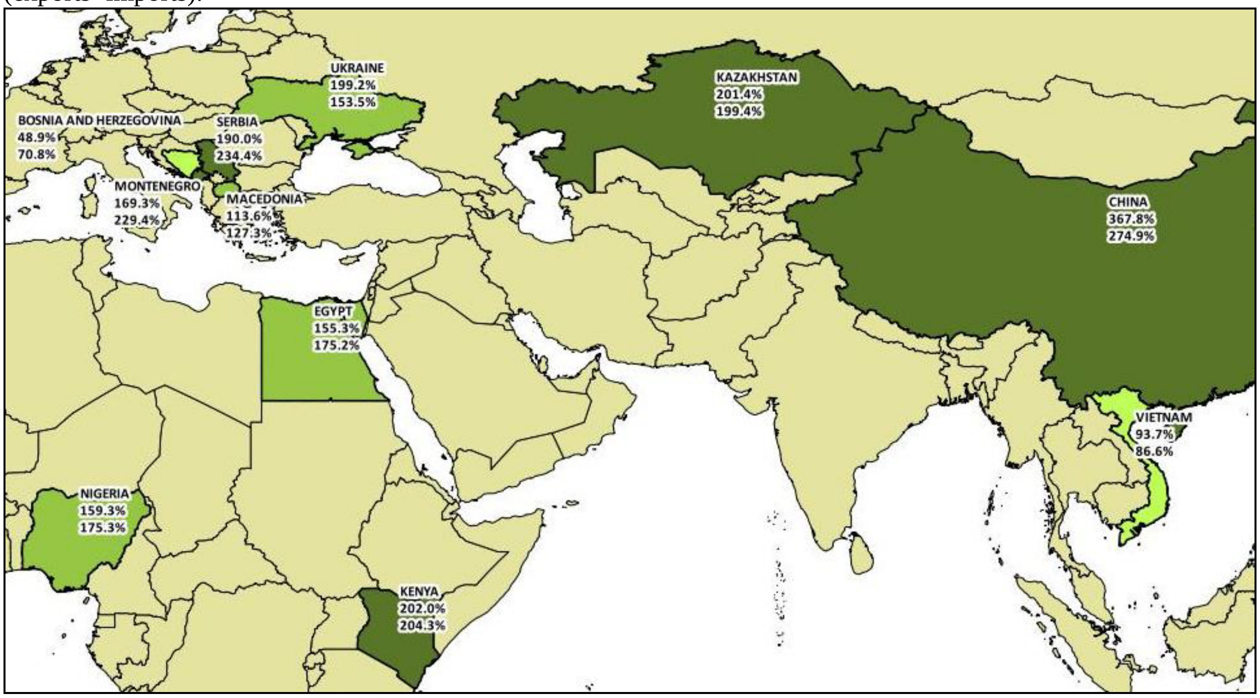
[8] This way we have altogether 11 countries (instead of the prescribed 10 countries) according to the present internationally recognized borders, but Serbia and Montenegro formed still one common state in time of the EU-accession of Hungary.

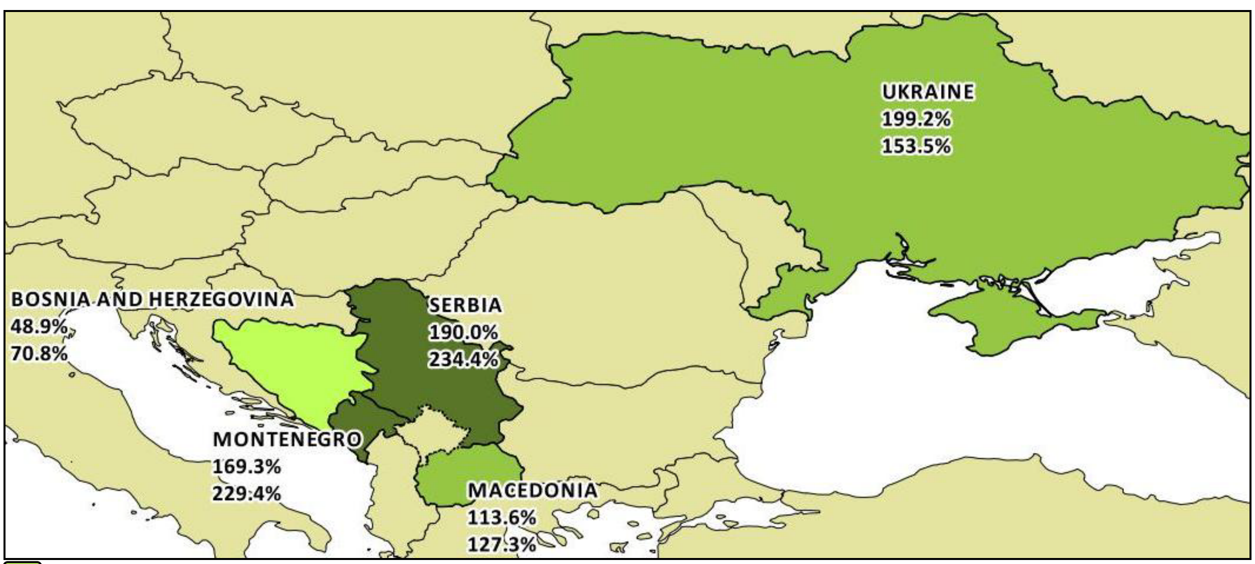
[9] The statistical source is The World Bank, DataBank, World Development Indicators, and calculated in current euro terms to ensure comparison http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators# and the USD/EUR exchange rates available at: http://sdw.ecb.europa.eu/browse.do?node=2018794

Charts 1-2.

Exports and Bilateral Trade of <u>Goods</u> with Selected Recipient Countries, 2003-2011 (average growth with the countries of the world =100%)

The first figure represents the growth of Hungarian exports and the second figure the growth of bilateral trade (exports+imports).





Below average growth in goods
Slightly above average growth in goods
Strong growth in bilateral trade of goods (at least 2 times the average growth)

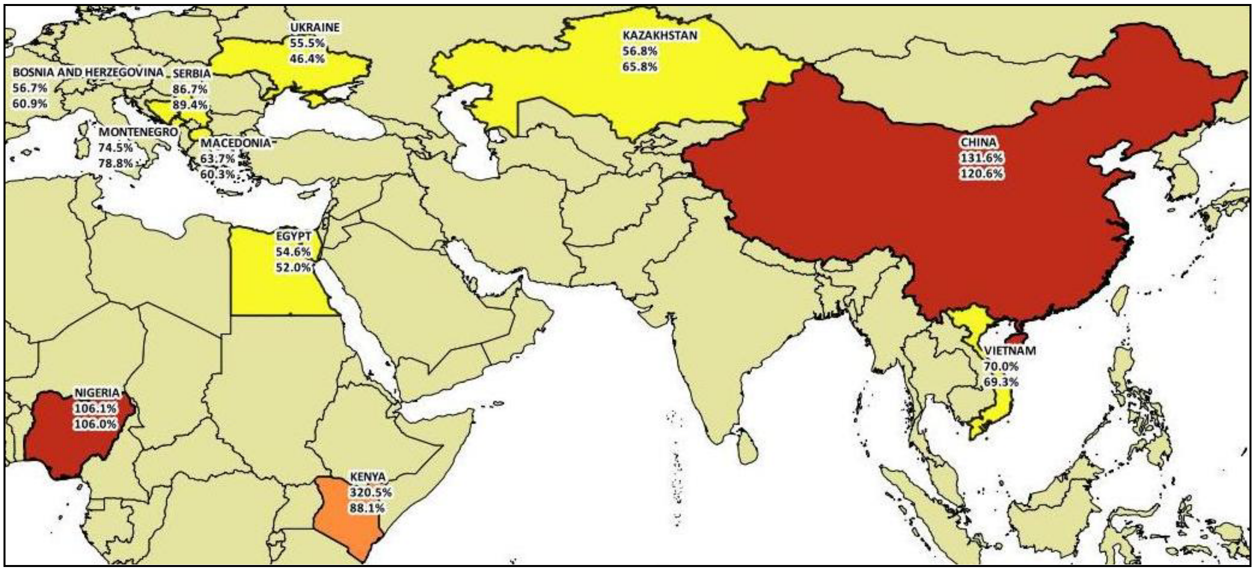
Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2003 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011

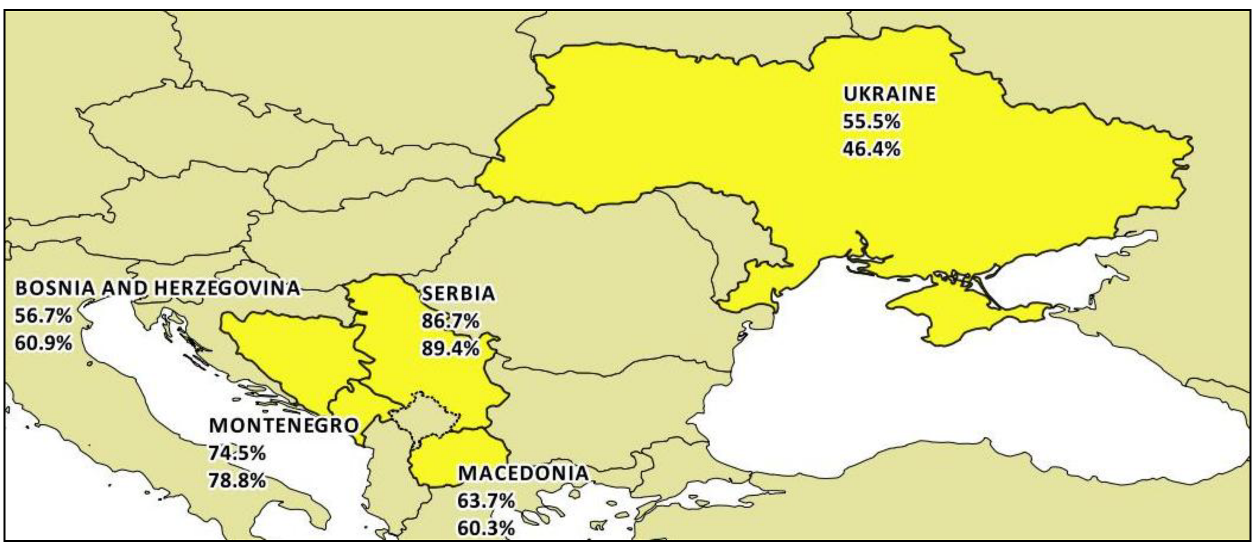
Source: Own calculation based on data from the Hungarian Central Statistical Office. Available at: http://www.ksh.hu

Charts 3-4.

Exports and Bilateral Trade of <u>Services</u> with Selected Recipient Countries, 2006-2011 (average growth with the countries of the world =100%)

The first figure represents the growth of Hungarian exports and the second figure the growth of bilateral trade (exports+imports).





Below average growth of both exports and bilateral trade in services
Above average growth of exports of services but below average growth of bilateral trade in services
Moderate growth of both exports and bilateral trade of services

Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2006 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011

Source: Own calculation based on data from the Hungarian Central Statistical Office. Available at: http://www.ksh.hu

The following table summarizes the changes in bilateral trade relations between Hungary and the selected recipient countries:

Table 2

Changes in Relative Weights of the Selected Recipient Countries in the Overall International Trade Turnover of Hungary (%-points, between 2003/2006 and 2011)

Bilateral trade indicators→ *Countries↓*	Exports of goods (2003-2011)	Exports of services (2006-2011)	Exports + imports of goods (2003-2011)	Exports + imports of services (2006-2011)
Bosnia and Herzegovina	-0.34	-0.09	-0.09	-0.11
China	1.11	0.20	2.34	0.39
Egypt	0.05	-0.07	0.04	-0.10
Kazakhstan	0.01	-0.27	0.004	-0.24
Kenya	0.09	0.003	0.07	-0.0005
Macedonia	0.02	-0.01	0.03	-0.01
Montenegro	0.02	-0.04	0.02	-0.06
Nigeria	0.02	0.004	0.01	0.01
Serbia	0.64	-0.15	0.54	-0.05
Ukraine	1.02	-0.32	0.60	-1.12
Vietnam	-0.003	-0.02	-0.01	-0.03
11 countries together	2.63	-0.77	3.55	-1.33
10 countries (without China)	1.53	-0.97	1.21	-1.73

Note: green background indicates an increase of the weight of the particular country in bilateral trade relations. *Sources: Own calculation based on data from the Hungarian Central Statistical Office. Available at: http://www.ksh.hu*

Time series data for *international trade of services* are only available at the level of total services.[10] Among the 11 countries the only one that increased its relative weight is China, with slight increases for Kenya and Nigeria albeit starting at an extremely low level. The increasing role of non-European countries in international trade of services is even more obvious in the crisis period: since 2008 Kazakhstan and Vietnam joined China, Kenya and Nigeria among the expanding markets. Nevertheless, service trade level between the selected 11 countries and Hungary is still very low with only 1-2 projects bringing virtually outstanding changes. For lack of country-specific data we may only note in general that *transport services, construction and IT services* are the internationally most competitive sub-branches of the Hungarian service sector.

Concerning the external trade of goods, the following bilateral trade profiles can be drawn based on the volume of exports and imports and the product-level trade flows between the recipient countries and Hungary.

1. With Southeast Europe Hungary has a significant trade surplus: imports from these countries typically cover only 10-30% of the value of Hungarian exports. In addition to the flagship machinery exports, pharmaceutical companies are also outstanding exporters

[10] The practice of statistical trade data is not to provide statistics by countries and by service sub-branches so as not to break the principle of non-identifiability of data-providers. At the level of sub-branches the number of the international service data providers is very low for several countries (informant: Zsófia Prohászka, CSO Hungary, Department of External Trade and Service Statistics). Moreover, none of the selected 11 countries are major international service trade partners which means that the non- identifiability principle is especially valid.

to this region. Moreover, Hungarian agricultural and food industry companies have an important role in the food supply of Bosnia and Herzegovina and the Hungarian energy sector is an important energy provider for Serbia. The only exception is Montenegro; because of the outstanding volume of imports from aluminum and articles thereof (that covers almost 99% of the Hungarian imports from Montenegro) Hungary registers a deficit in Montenegrin trade relations.

2. Hungary's export profile is rather similar with Ukraine and Kazakhstan. However, the Hungarian trade surplus is less significant because of the high volume of energy imports from Kazakhstan and a more balanced trade flow in machinery products with Ukraine. Besides pharmaceutical and machinery exports also food- and plastic-manufacturing industries play an important role in exports to these countries.
3. Hungarian external trade is especially unbalanced with African countries. The volume of imports from African amounts to less than 10% of exports to Egypt, Kenya, and Nigeria; in the case of the latter two the ratio is below 1%. Machinery products dominate exports to these countries, but Hungarian companies also deliver significant amount of organic chemicals, plastic articles, textile products, ceramic products and furniture. The volume of Hungarian imports is significant from Egypt in agricultural, chemical and paper industry articles. There are no significant import products from either Kenya or Nigeria – the only exception is the import of live trees from Kenya.
4. Global trade flows dominate the Hungarian trade profile with East Asian countries. However, with China and Vietnam, Hungary has a trade deficit; moderate with Vietnam, but very high in relation to China. Machinery products dominate Chinese-Hungarian trade relations, while Hungarian trade flows with Vietnam also comprise several food industry products, pharmaceutical, chemical and furniture articles.

Direct Investment

At first glance Hungary plays a relatively important role in direct investment activities in the Western Balkans. The perceived 'frontrunner' status of Hungary among the EU new member countries, its earlier liberalization and privatization generated a significant outward foreign direct investment to the neighbouring countries (Szemlér – Éltető 2012). However, an important part of this OFDI is so-called transit FDI when multinational companies reallocate capital between countries via their operational subsidiaries.[11]

Besides tax optimization purposes (partly in Cyprus, Switzerland and the Dutch Antilles) Hungarian OFDI is valuable in Croatia, Slovakia, Romania, Bulgaria and two of the selected recipients, *Serbia and Ukraine*. Nevertheless, Hungarian companies' investment activity is rather limited: both Serbia and Ukraine have a weight of about 2% of total OFDI.[12] In addition, there is

[11] "According to the Hungarian National Bank, € 2.5 bn of the € 4 bn FDI and of the € 2.7 bn OFDI was thus related to this type of multinational activity, which is actually recorded in the balance of payments in FDI and OFDI, but in reality does not result in lasting direct investments inside and outside of Hungary" (Szemlér – Éltető 2012:27).

[12] For comparison, Serbia's weight in the total Hungarian exports is 1.4% in goods and 1% in services and that of Ukraine is 2.1% in goods and 0.4% in services.

a lower, but statistically still measurable Hungarian OFDI in Macedonia, Montenegro and China whereas in the other 6 countries, Hungarian investment activity is statistically insignificant. The *Macedonian and Montenegrin OFDI are mainly transit type foreign direct investment*:[13] through their local subsidiaries the Magyar Telekom is the main investor, the ultimate owner and decision-maker is Deutsche Telekom.[14] Hungarian investment in China is even smaller amounting to less than 0.2% of total Hungarian OFDI. China is the only country among the 11 where Hungarian private investment activity has been rising every year since 2008. In sum, the impression of significant Hungarian investment activities along the Southern and Eastern EU border is misleading with a significant part of "Hungarian" investment being the transit type of FDI. In addition, the Hungarian presence is based on a few large companies generally active throughout Central- and South-Eastern Europe (Magyar Telekom, MOL, OTP, Richter Gedeon) whilst the investment activity of other, smaller Hungarian companies is very low.[15]

A missing link: Hungarian financial private companies in international development activities

The participation of Hungarian financial private companies in international development activities is limited; the fact that the otherwise very extensive research of Szent-Iványi (2009) does not mention this is not accidental and there are several reasons behind this.

Foreign ownership has dominated the Hungarian banking sector since the second half of the nineties (Várhegyi 1998: 908); since 1997 the ratio of foreign ownership in the overall banking assets has been above 60%. The role of domestic private ownership is even weaker if we consider that most Hungarian financial companies are locally oriented saving banks. In fact, only one bank with (partial) domestic ownership has a realistic potential to significantly participate in international development activities, namely the OTP Bank. The international development preferences of the foreign-owned banks are in practice unrelated to Hungarian international development policy.

The international financial crisis has had negative consequences on the position of Hungarian banks (Várhegyi 2012). Sustained crises clearly undermine the willingness to participate in development activities. In addition, Hungarian private financial companies have been constrained by a special extra banking tax and the burden of an early repayment scheme for credits denominated in foreign currencies. The consequence of these crisis-management measures is that the multinational banking groups devaluate their Hungarian affiliated banks in their regional financial strategies (Várhegyi 2012: 234) fundamentally undermining aid development activity of these banks.

The only private Hungarian bank active in international projects is the OTP Bank which besides its operations in Hungary, the OTP Group currently operates in 8 countries in the region. Among these, Serbia, Montenegro and Ukraine might be relevant in international development projects.

[13] In Macedonia some smaller investment activity is observable in the food industry and other manufacturing sectors (Milanov 2012:19).
[14] See the annual report of Magyar Telekom at http://www.telekom.hu/static/sw/download/2011_MT_IFRS_Annual_Report_hun.pdf
[15] A good illustration is the practically non-existent OFDI of the 'flagship' automotive industry.

However, the Serbian and Montenegrin subsidiaries are the weakest performers in the banking group and the Ukrainian affiliated company is not among the best performers either.[16] As a result, we could not realistically expect significant international development activities from the OTP Bank.

Hungarian financial institutions or local subsidiaries of international banks indirectly support *financial development projects in the poorer regions of Hungary*. A good example is the Polgár Foundation for Opportunities that combines the expertise of leading bank managers with researchers involved in education and Roma minority inclusion. This foundation has micro loans and the bridging loans projects that could be absolutely relevant for of international development.[17]

Nevertheless, Hungary's main contribution to the financial development in certain DAC countries is through the activities of *two specialized state-owned financial institutions*, the EXIMBANK (Hungarian Export-Import Bank Private Limited Company) and the MEHIB (the Hungarian Export Credit Insurance Private Limited Company). Their role is "to facilitate the sale of Hungarian goods and services to international markets".[18] EXIMBANK and MEHIB are technically supporting Hungarian companies in countries considered as more uncertain markets – and the selected 11 countries clearly fall to this category. Concerning their role in international development, the most important is the provision of *tied aid credits.*[19] However, in this enduring crisis period, in particular because of the drying up of liquidity and a credit crunch in Hungary, the steadily increasing number of indigent companies created a more general use for the services of these institutions and as a consequence, the number of companies interested in tied aid credits and international development projects has been rising.

Transfer of know-how and technology, building of physical infrastructure and human capital

Hungarian private sector play a role in Hungary's international development assistance projects in a limited number of fields, among the most important being humanitarian aid (donation of foods and medicines) and some aspects of technical assistance (Kiss 2012:374). However, the project-level overview of development activities indicates a more significant contribution. In this respect, we underline the following projects:

- Infrastructure development in Bosnia and Herzegovina (namely the transfer of water purification technology of drinking water in Tuzla);

[16] This is in sharp contrast with the outstanding profitability of the Bulgarian and Russian subsidiaries and the positive Hungarian core profitability, see Annual Report, 2011): http://bet.hu/data/1544339/OTP_Eves_jelentes_2011.pdf
[17] For more details, see: http://polgaralapitvany.hu/en/
[18] http://www.eximbank.hu/en/eximbankrol/kuldetes/ The mission of Eximbank is to enable Hungarian companies – whether small or large – to take their export opportunities by assisting in financing the export of Hungarian goods and services. The export financing products and services of Eximbank are alternative of complementary tools intended to fill the gaps in trade finance created by the lack of ability or willingness of commercial banks to absorb risks."
[19] Tied aid credits have been applied in Hungary since 2004. The author of the main research on this topic (Némedi-Varga 2003) is one of the primary individuals currently responsible for tied-aid-credit-related projects at EXIMBANK.

- Agricultural and food industry training in Kenya (as part of the joint Scholarship Programme with the United Nations' Food and Agriculture Organisation);
- Adult training project in Macedonia;
- Construction activities in Montenegro's educational infrastructure (kindergarten, primary school, healthcare vocational school and adult training centre);
- Viticultural training and technological improvement in preserving the genetic profile of indigenous goat and sheep breeds in Serbia;
- Bilateral scientific and technological cooperation projects with Ukraine;
- Joint Scholarship Programme with the UN FAO for Vietnamese applicants.

In addition, it is worth mentioning that private companies contributed to agricultural development projects in Afghanistan and Laos: agricultural companies transported seeds and help open the joint scholarship programme with the UN FAO also to Afghanistan, whilst several projects helped improve technological efficiency of agricultural production in Laos.

The transfer of know-how, technology and good practices are particularly important in *agriculture and related manufacturing industry sectors*; this includes not traditional production methods of foods and beverages, but also latest technologies in viticulture and environmentally sustainable animal husbandry. *Human capacity building scholarship programmes* play a predominant role in international development policy and the joint programmes with FAO are especially relevant in developing countries.

Hungarian private sector actors can contribute significantly to international projects mainly in the investment and manufacturing fields, especially when the latter is related to agriculture. Private involvement is smaller in the educational and healthcare sectors where state-ownership is dominant and where non-governmental development organisations play a particularly important role in *education*.

Recent development relations with Kenya generated an increasing interest in the support to the *health sector*; the Ministry of Foreign Affairs actively promoted the private sector "to provide Mother and Child Health, Nutrition and Family Planning Services". In principle, comprehensive health sector projects are opportunities for Hungarian companies construction (planning of hospitals, building and related services), manufacturing of surgical instruments and health-care training. However, the actual participation of private companies in international development projects is conspicuously low. As Ministry of Foreign Affairs underline '*the small amount of winners in international development projects are government agencies and civil society organizations and not private companies*', the winner of a health development project in Langas, the second largest slum of Kenya was the non-profit Foundation for Improvement of Medical Services (Külügyminisztérium 2012:21 and Vitényi 2012:21).

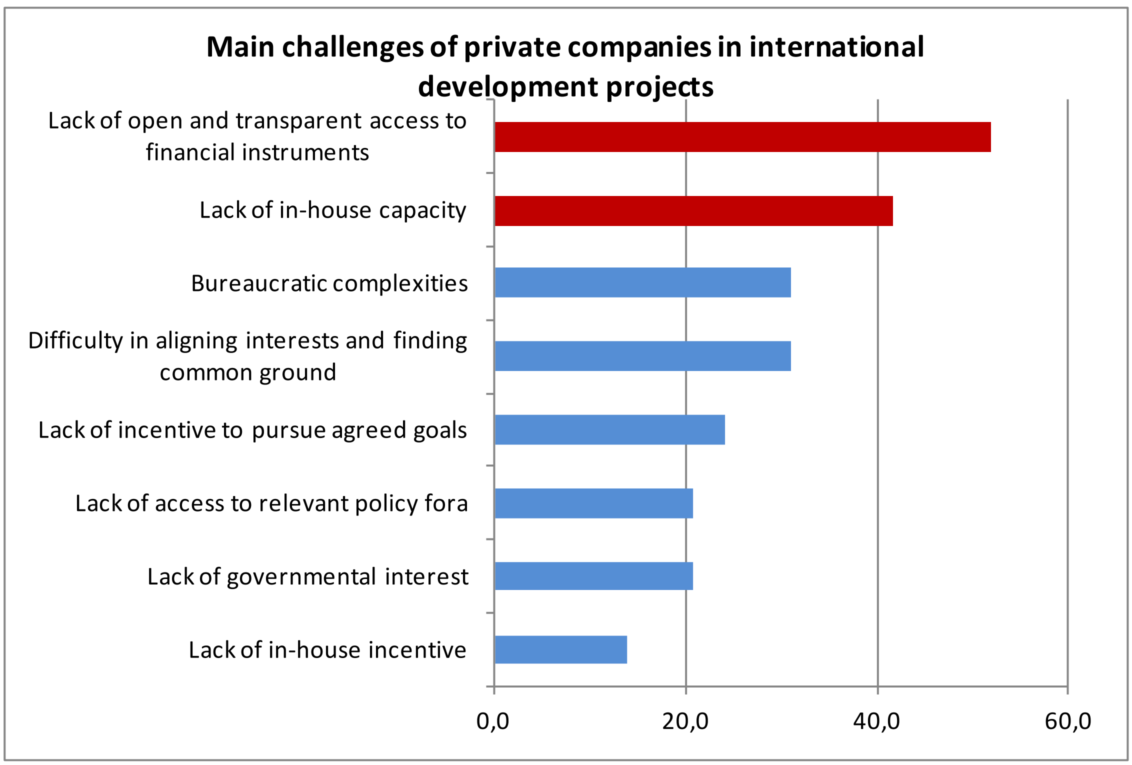
Hungarian private sector's participation: motivation and potential

In order to explore the motivation and potential of Hungarian private sector actors to participate in development activities we carried out a survey in late 2012. [20]

The most important finding was that the vast majority of companies are *too small to be able to participate successfully in international development projects*. About a half of the respondent companies considered the '*lack of open and transparent access to financial instruments' as the major difficulty* for taking part in international development projects. However, a significant part (41.4%) is aware of their own capacity problems. This is in contrast with their *high level of motivation* – 86% of respondents do not have problems with in-house incentives.

The capacity problems likely account for the *low level of cooperation with local partners* present in the selected 11 countries. The main field of cooperation is transport, storage and distributions, followed by cooperation in business services as well as IT and communication fields; less than one-third have regular production cooperation with local partners.

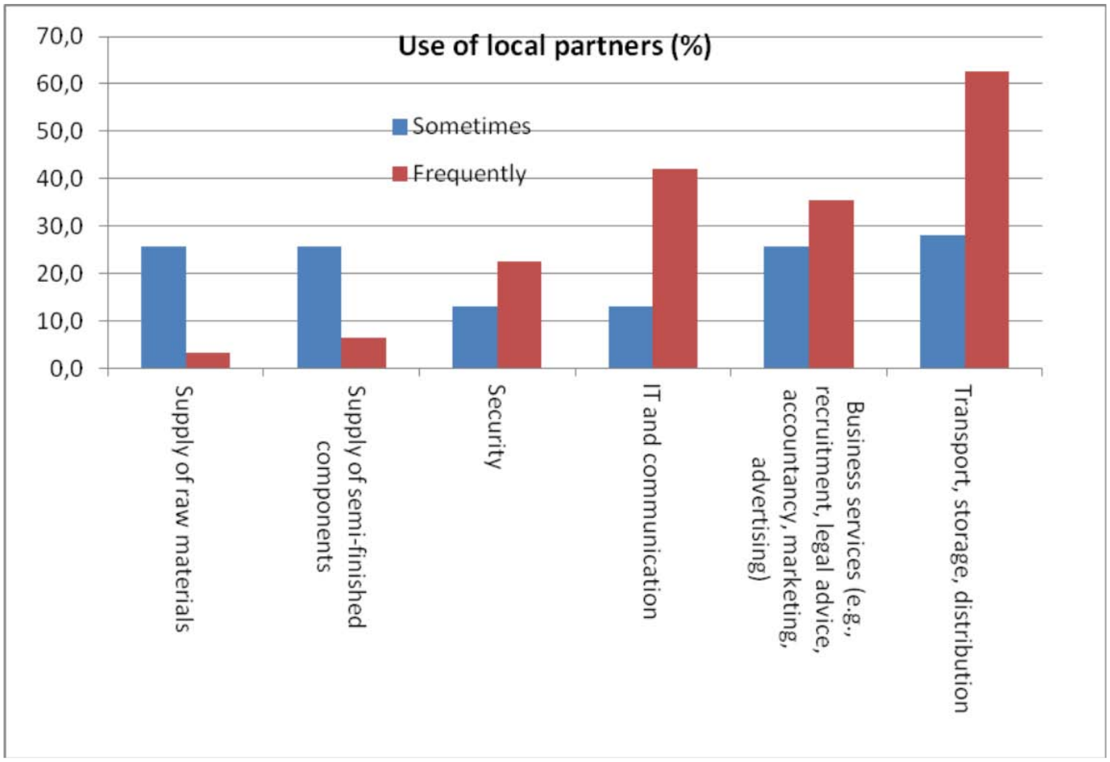
Chart 5



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

[20] We have 32 response units representing 11 countries; though this meets the methodological guidelines our results can only be considered initial findings of an explorative research.

Chart 6



Source: CPS Survey 0October-December 2012

The main suggestions to improve their involvement in international development projects concentrate on three fields: (1) joint participation in specific sectoral working groups (mentioned by 38% of respondents); (2) more active opportunity to define the framework of co-financing mechanisms (mentioned by 52%) and first and foremost, the possibility to participate in *regular professional consultations* (mentioned by 68%!).

There was a conspicuous *scepticism cocnerning the role of foreign-owned private for-profit companies in contributing to development goals in poor countries*. At a scale from 1 to 5, they gave slightly above-average evaluation only for two components: encouraging the development of basic infrastructure and improving employment standards and conditions. According to the respondents, foreign companies have only a moderate role in transferring know-how and technology, promoting fair market competition, facilitating access to finance and enhancing local human capital. Moreover, they consider the supposed development-supporting impact of foreign companies especially weak in the transparent implementation of law and regulatory frameworks.

Employment, social activities, and corporate social responsibility

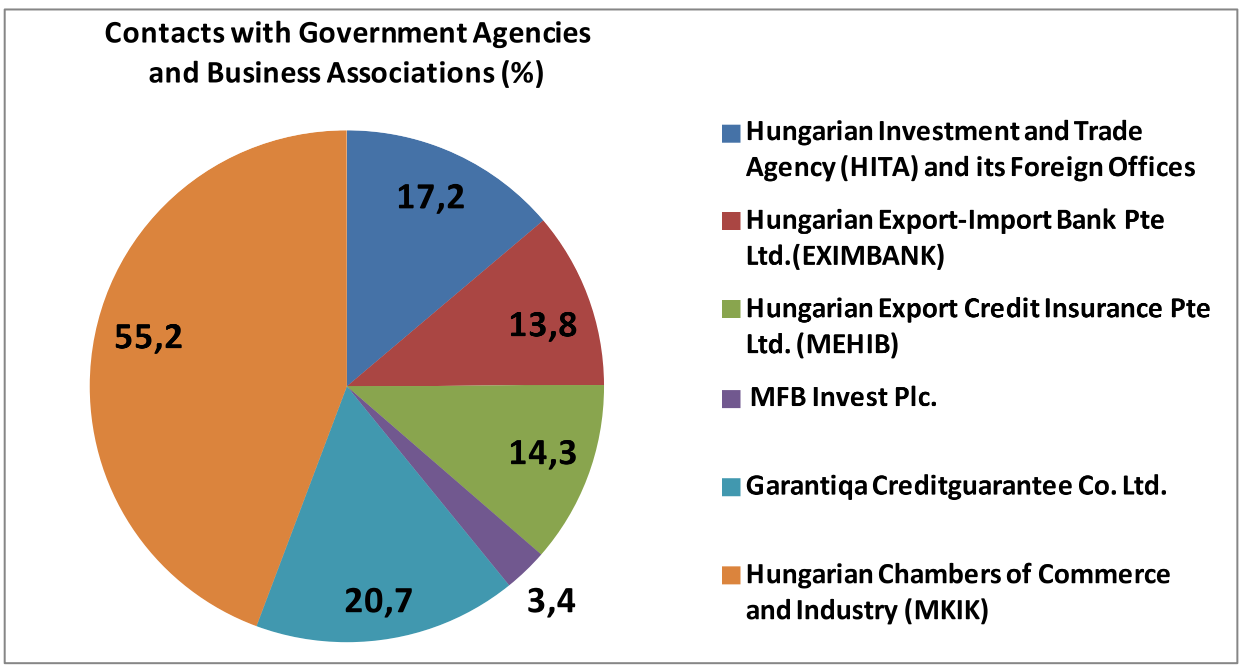
It is difficult to provide valuable information about the role of the Hungarian private companies in the field of employment and related social activities in the selected countries. Trade-based relations dominate bilateral cooperation between Hungarian companies and local actors in the recipient countries. The other types of cooperation, such as involving local producers in sub-contracting and providing market services, are rather moderate. This is also valid for the supposed employment of local workforce, especially because of the small size of the Hungarian companies. In addition, most companies that might provide information about employment relations in selected countries were reluctant to share this information.

In the rare cases when Hungarian companies employ a local workforce, they employ them without trade-unions. However, 58% of responding companies have a specific employment ethical code which they apply with the same standards in the selected recipient countries as in Hungary. As our respondents are mainly performing physical infrastructure building activities, it is not surprising that they employ significantly more men than women. However, when the administrative unit is larger, the level of female employment is higher. The typical employment relation of the recruited workforce is full-time employment; part-time employment is atypical. Finally, there are very few traces of corporate social activities: supporting community transport commuting and providing in-house training are the ones observed at all.

The role of intermediary organizations

Intermediary organizations can help transfer information between government agencies and enterprises as well as to promote cooperation in the form of clusters. According to our survey, the Hungarian Chambers of Commerce and Industry (MKIK) could play a strong role. Thanks to its decentralised character more than half of the motivated private companies maintain regular contact with it. The specific function of MKIK and HITA (the Hungarian Investment and Trade Agency) is related to managing corporate data bases, while other significant supportive organizations such as Garantiqa, EXIMBANK, and MEHIB fulfill technical functions.

Chart 7



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

Tied aid

The practice of tied aid plays a specific role in Hungarian international development policy. Tied aid has a strong domestic legitimacy not only within the private sector and intermediary organizations but also with most relevant government agencies.[21] Moreover, one of the leading Hungarian scholars in the field argues that profit tied aid is a "successful form of the aid practice" (Kiss 2012:385). Under the present economic and social conditions the domestic legitimacy of international development among can hardly be based solely on altruism; it requires additional tangible results that may raise public awareness about international development. Tied aid is considered as a form of international aid that also supports the export market and thereby indirectly promotes the well-being of Hungarian citizens as well.

A successful example: the Hungarian Water Business Cluster

General capacity problems can be partly overcome through cluster development and a successful example is the Hungarian Water Business Cluster that started in January 2008. This cluster brought together different areas of the water industry and by 2013, it had 10 active members in construction, public utility (water and drainage systems) operation, potable water purification, communal and industrial wastewater treatment and environmental services (e.g. flood prevention). In this manner, the otherwise insurmountable gap between motivation and capacity to participate in international development projects can be bridged. Members "can jointly help their potential partners in water management issues using their expertise, knowledge, know-how, capacity and vitality".[22] It is noteworthy that among others achievements, the Hungarian Water Business Cluster was able to achieve significant business success in China.

[21] In addition, Government Decree 1516/2012 (XI. 22.) will provide financial assets for the continuance of tied aid credits. The Minister of Economics will assign South and Far-East Asia, various Africa Regions, and the Western Balkans as target areas for the 2012-2020 budgetary period.

[22] Source http://www.vizipariklaszter.hu/home

Conclusion and recommendations

The Hungarian private sector has so far made a rather moderate contribution to the international development policy goals of Hungary. One of the principal reasons is that the Hungarian business environment has been on the verge of recession since 2006. Secondly, micro- and small companies dominate the corporate landscape and the vast majority is incapable of taking part in international development projects. The few large companies are mostly multinational and they are embedded in the international development network of their owner's country. Recent crisis-management measures generated distrust between foreign-owned companies and the Hungarian government, especially within the banking sector.

SMEs are very interested in participating in international development projects although they lack relevant capacities and only a few provide significant technological value-added in international markets. They cannot finance the investment needs of larger-scale projects, and capacity problems are additionally aggravated by human resource problems.[23]

Business associations can help fill the gap between private sector interest and capacity. Though cooperation is uneven amongst domestic private actors, corporate cluster as evidenced by the water industry, is one promising alternative. However, our findings do not confirm a special role for social network capital acquired by individuals once studying in Hungary and now occupying influential positions back home; this might have been important in the past, but it is rather marginalised nowadays. In addition, though Hungarian NGDOs could, in principle, help foster private participation in international development projects, this network is practically non-existent with local NGDOs first and foremost embedded in international civic networks.

In these circumstances the potential of tied is not surprising. Both private and government actors have a common position that under present untied aid conditions the vast majority of Hungarian private companies cannot take part in international development projects. However, tied-aid-related tenders undoubtedly generate additional opportunities to increase exports and support the legitimacy of international development aid in a country that has been experiencing a narrowing domestic market and increasing poverty for the last 7 years. Though it has strong opposition amongst international organizations and civic actors, tied aid has a relatively strong domestic legitimacy.

Nevertheless, taking into account foreseeable international trends we recommend that the relevant Hungarian government actors gradually reduce the predominant role of the tied aid. This may gain greater legitimacy if Hungarian private actors are more competitive which will necessitate additional efforts, within initiatives such as clusters but also through the work of financial institutions such as EXIMBANK and MEHIB. Improvements in the general business climate will help but in the short term, human capacity problems can be partly solved through greater cooperation with the NGDO sector. Intermediary organizations can help foster greater inter-firm co-operation as well as maintain opportunities through an accessible and transparent data base.

[23] Since the 1990s, SMEs have experienced certain human capital devaluation: the relatively higher and more stable salaries and career opportunities at multinational companies and in various new state agencies attracted those with higher level of education at the expense of domestic enterprises (Lengyel 2003:127).

Annex One: Selection Criteria and the Selected Recipient Countries from the Hungarian Perspective

Selection criteria→ *Countries↓*	Trade volume	Foreign policy or economic policy preferences	ODA allocation level	Country of Western Balkan or Eastern Partnership	Historical development ties
Bosnia and Herzegovina	X		X	X	
China	X	X			
Egypt	X	X			
Kazakhstan	X	X			X
Kenya		X	X		
Macedonia	X			X	
Montenegro		X	X	X	
Nigeria		X	X		
Serbia	X	X	X	X	
Ukraine	X		X	X	
Vietnam		X	X		X

Sources: Central Statistical Office (CSO) Hungary: International Trade Statistics; Ministry of Foreign Affairs: Hungarian Foreign Policy after the EU Presidency, 2011; Ministry of National Economy: International Economic Strategy, May 2011; Ministry of Foreign Affairs: Report on Hungary's International Development and. Humanitarian Aid Activities in 2011, June 22, 2012; Szent-Iványi (2009:193)

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Main sources of information

- A survey about the Hungarian private sector actors' participation in international development (October-December 2012) sample from 11 countries, 32 response units (the questionnaires and the SPSS database is submitted in separate files in the research archive)
- Interviews with the representatives of ministries and government agencies (between September 2012- January 2013): Ministry of Foreign Affairs, Ministry of National Economy, Ministry of Rural Development, Hungarian Investment and Trade Agency, EXIMBANK
- Focus group (30 January 2012): 4 representatives of private companies, 1 representative of the Hungarian Water Business Cluster, 2 representatives of intermediary organizations (MKIK, Hungarian Chambers of Industry and Trade and HITA, Hungarian Investment and Trade Agency)

Supporting technical and statistical softwares:

HBI Bisnode Hungary Ltd. corporate database

Maps were created using the dataset available under a Creative Commons Attribution-Share Alike License and can be downloaded from: http://thematicmapping.org/downloads/world_borders.php. Provided by Bjorn Sandvik, thematicmapping.org. Software used: Quantum GIS Desktop (1.8.0)

SPSS software. (IBM SPSS Statistics 21). More details about it available at: http://www-01.ibm.com/software/analytics/spss/

SurveyGizmo Survey Software. More details about it available at: http://www.surveygizmo.com/